

## To the Shareholders

Second quarter earnings were \$490,578 or 61¢ per common share on sales of \$17,182,552, compared to earnings of \$385,736 or 48¢ per share on sales of \$13,443,363 in the corresponding period of 1973.

For the first half of 1974 earnings were \$1,204,995 or \$1.51 per share on sales of \$36,101,029 compared to \$969,904 or \$1.21 per share on sales of \$28,705,602 in the similar period of last year.

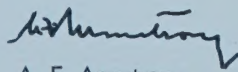
Although both sales and earnings show improvements over the corresponding period of last year, the after-tax return on sales for the six months of 1974 of 3.3¢ per \$1.00 of net sales revenue continues below the 1969-1973 five-year average of 3.8¢ per net sales dollar. The present returns on investment and shareholders' equity remain below the levels required to justify major capacity expansion and replacement projects at current high costs for equipment, construction and money.

Both consumer and trade demands for all Scott product categories were very strong in the first six months. Many vital raw materials necessary to our production processes remain in short supply, causing higher-than-usual schedule changes and some disruptions in manufacturing. Operating costs, including such major items as pulp, energy, distribution, wages and salaries continue to escalate at an alarming rate, primarily as a result of the Canadian and world-wide cost/price inflation and the continuing shortages of many basic raw materials.

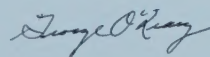
While the near-term outlook is clouded by the unprecedented cost escalations and shortages, we are continuing our planned programs related to new product development and the accompanying future capital and capacity additions. This reflects our confidence in the market growth potentials for sanitary and convenience paper products in Canada in the longer term.

At the Annual Meeting of Shareholders, held on April 29th, all resolutions contained in the Notice of Meeting were approved. For the convenience of shareholders, the Company's Canada Trust transfer agencies were expanded from three to five. Share transfer locations are now Vancouver, B. C., Calgary, Alta., Toronto, Ont., Montreal, P.Q., and Halifax, N.S. All Directors nominated were re-elected.

FOR THE BOARD OF DIRECTORS



A. F. Armstrong,  
Chairman and  
Chief Executive Officer



G. L. O'Leary  
President

New Westminster, B. C.  
July 19, 1974.

AR39



SCOTT PAPER LIMITED  
BOX 760, NEW WESTMINSTER, B. C. CANADA

# SCOTT

SCOTT PAPER LIMITED

STATEMENT OF OPERATIONS

for the

First Six Months of 1974



# SCOTT PAPER LIMITED

## CONSOLIDATED STATEMENT OF INCOME FOR THE FIRST SIX MONTHS OF 1974 (with corresponding amounts for 1973)

	First Six Months 1974	First Six Months 1973
Sales, less discounts and allowances .....	\$36,101,029	\$28,705,602
Expenses (Note 1):		
Cost of products sold .....	25,548,685	19,740,873
Marketing, general, administrative and development expenses .....	8,431,068	7,224,137
	33,979,753	26,965,010
Income before taxes .....	2,121,276	1,740,592
Provision for taxes on income .....	916,281	770,688
Income after taxes for the period .....	\$ 1,204,995	\$ 969,904
Income per share after taxes .....	\$1.51	\$1.21
Dividends paid per share .....	.50	.50
Number of shares outstanding .....	800,000	800,000

NOTE 1—Expenses include depreciation of \$1,365,550 (1973 - \$1,119,132).  
Subject to audit and year-end adjustment.

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL FOR THE SIX MONTHS ENDED JUNE 29, 1974

(With corresponding amounts for the six months ended  
June 30, 1973.)

	First Six Months 1974	First Six Months 1973
SOURCE:		
Income for the period ....	\$ 1,204,995	\$ 969,904
Add—		
Charges which did not involve an outlay of working capital:		
Depreciation (Note 1) ....	1,365,550	1,119,132
Deferred income taxes ....	640,000	550,000
Amortization of debenture issue costs .....	25,649	12,896
	\$ 3,236,194	\$ 2,651,932
APPLICATION:		
Net additions to fixed assets .....	\$ 2,566,638	\$ 1,798,958
Dividends .....	400,000	400,000
Purchase of Series A debentures .....	764,000	100,000
Net increase miscellane- ous assets .....	1,696	4,000
	\$ 3,732,334	\$ 2,302,958
Increase (decrease) in working capital during the period ....	(496,140)	348,974
Add—		
Working capital at beginning of the year	5,732,926	6,769,489
Working capital at end of the period .....	\$ 5,236,786	\$ 7,118,463